

NOVEMBER 9, 2004

**SCHAKOWSKY ISSUES STATEMENT
ON BLACKWATER USA**

WASHINGTON, D.C. - U.S. Representative Jan Schakowsky (D-IL) issued this statement after reading Blackwater USA's Nov 2004 newsletter in which the president of the private military contractor cheered the re-election of President Bush:

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"Blackwater USA, one of the private military contractors whose business flourished as a result of lucrative, multi-million dollar, tax-payer funded contracts in Iraq, cheered the re-election of George Bush.□

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"Like Halliburton, which received billions in contracts and whose stock prices spiked after Bush's re-election, Blackwater, four of whose employees were brutally murdered in Fallujah, looks forward to four more years of war-time contracts.□ □ □

"These private military contracts raise critical questions about both cost effectiveness and mission effectiveness.□ An investigative report by *The News & Observer newspaper* published at the end of October concluded that many contracts, including Blackwater's, drive up rather than reduce costs for the government.□ U.S. soldiers are paid a fraction of the close to \$200,000 salaries earned by Blackwater employees for performing the same type of training and security jobs. (See Story Below)

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"As important are the questions of accountability and oversight raised by contractors like Blackwater who perform sensitive military functions in places like Iraq and Colombia:□ Who gives the orders; where do contractors fit in the chain of command; who vets their employees; who is responsible if things go wrong; and how are they spending taxpayer dollars?□ □ □

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"Congress has a responsibility to expand oversight and access to contracts signed with private firms.□ That is why I introduced a bill that would require the Department of Defense to supply Congress with copies and descriptions of new contracts and task orders that the Pentagon signs with private firms to conduct business in Iraq or Afghanistan.□ □ In the 109th Congress, I will reintroduce this bill and will work closely with Republicans and Democrats to get it passed.

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Use of private contractors in war zones proves costly

By JOSEPH NEFF and JAY PRICE, The News & Observer of Raleigh

RALEIGH, N.C.

Jerry Zovko's contract with Blackwater USA looked straightforward: He would earn \$600 a day guarding convoys that carried food for U.S. troops in Iraq.

But that cost - \$180,000 a year - was just the first installment of what taxpayers were asked to pay for Zovko's work.

Blackwater, based in Moyock, N.C., and three other companies would add to the bill, and to their profits.

Several Blackwater contracts obtained by The News & Observer open a small window into the multibillion-dollar world of private military contractors in Iraq. The contracts show how costs can add up when the government uses private military contractors to perform tasks once handled by the Army.□

Here's how it worked in Zovko's case: Blackwater added a 36 percent markup, plus its overhead costs, and sent the bill to a Kuwaiti company that ordinarily runs hotels. That company, Regency Hotel, tacked on its costs for buying vehicles and weapons and a profit and sent an invoice to a German food services company called ESS that cooked meals for the troops.

ESS added its costs and profit and sent its bill to Halliburton, which also added overhead and a profit and presented the final bill to the Pentagon.

It's nearly impossible to say whether the cost for Zovko doubled, tripled or quadrupled. Congressional investigators and defense auditors have had to fight the primary contractor, Halliburton, for details of the spending. The companies say the subcontracts

are confidential and won't discuss them.

About 20,000 private security contractors are now in Iraq, escorting convoys, protecting diplomats, training the Iraqi army and maintaining weapons.

The bills for this work flow from the bottom up. They start with Blackwater's \$600-a-day guns for hire such as Zovko and his three comrades, who were killed escorting a convoy through Fallujah in March.

At the top is Houston-based Halliburton, which has an open-ended "cost-plus" contract to supply the U.S. military with food, laundry and other necessities. Cost-plus means the U.S. government pays Halliburton all its expenses - its costs - plus 2 percent profit on top.

So far the Army has committed \$7.2 billion on this cost-plus contract to Halliburton, which has been criticized for its performance in Iraq. The company has drawn additional political fire because of its ties to Vice President Dick Cheney, a former Halliburton CEO.

Henry Bunting, a former Halliburton purchasing officer, said he heard a common refrain in 2003 in Kuwait from managers at KBR - also known as Kellogg Brown & Root - a division of Halliburton: "Don't worry about price. It's cost-plus."

"There is no question the taxpayer is getting screwed," said Bunting, who was an Army staff sergeant in Vietnam. "There is no incentive for KBR or their subs to try to reduce costs. No matter what it costs, KBR gets 100 percent back, plus overhead, plus their profit.

"The Army said it is satisfied with Halliburton's performance.

"They are providing essential services to our troops every day," said Daniel Carlson, a spokesman for the Army Field Support Command, which oversees the contract. "All the reports from the field come back that they are providing the services adequately."

Even if the Pentagon could tally all the layers of profit and overhead, it would struggle to compare the cost of using contractors such as Zovko in Iraq against the cost of soldiers.

According to a Defense Department Web site, a soldier with Zovko's experience and final rank (he was a sergeant) would receive about \$38,000 a year in base pay and housing and subsistence allowances. That figure would not reflect additional costs for things such as health and retirement benefits or combat pay.

The shift to private contractors has often been justified as cheaper and more efficient. But the real reason for the use of private contractors is to reduce the political costs of war, according to P.W. Singer, an expert on private contractors and the military at the

Brookings Institution in Washington.

By using private contractors to do work soldiers once did, Singer said, the administration doesn't have to call up more regular troops, or National Guard and reserves, or compromise with allies to get them to send more troops.

"We don't need another division there - we've got 20,000 private military contractors," Singer said.

But Singer said it's hard to see how five layers of profits and overhead could save money.

"A cost-plus structure is contrary to all the lessons of free-market economics," Singer said. "It is most ripe for abuse ... and by layering it and layering it, you make it even worse."

The way to keep costs under control is vigorous oversight, Singer said. But government auditors and congressional investigators have had a difficult time examining how money has been spent in Iraq.

A recent audit by the Defense Contract Audit Agency said Halliburton could not document 42 percent of a \$4 billion invoice submitted to the Pentagon. Much of the \$1.8 billion that lacked documentation was for subcontractors who helped feed U.S. troops - the area in which Blackwater was working.

Halliburton will not discuss subcontracts, saying they are private dealings. Company officials dispute all accusations that they have overbilled the Defense Department.

The News & Observer obtained the Blackwater documents while reporting on the fate of four Blackwater contractors ambushed and killed in Fallujah in March: Zovko, Scott Helvenston, Wesley Batalona and Michael Teague.

In the days after the men were killed, the images of the mob abusing the contractors' bodies and dragging them through the streets drew worldwide outrage. The incident also spotlighted the growing role of private military contractors.

What wasn't clear at the time was how complex a structure lay beneath a simple decision: to use private contractors in Iraq.

Blackwater's charges to Regency for Zovko's work were \$815 a day, a markup of \$215. In addition, Blackwater billed Regency separately for all its overhead and costs in Iraq: insurance, room and board, travel, weapons, ammunition, vehicles, office space and equipment, administrative support, taxes and duties. Blackwater executives declined to be interviewed for this report.

Regency then billed ESS, the German food company. It's unclear how much Regency

tacked on for profit and overhead; Jameel Al Sane, the owner of Regency Hotel, and his associate, retired U.S. Army officer Tim Tapp, declined to answer questions.

Kathy Potter, a former Blackwater employee who helped set up the company's Kuwait office, said Regency was making a tidy profit.

"Tim and Jameel would do stuff like quote ESS a price, say \$1,500 per man per day, and then tell Blackwater that it had quoted ESS \$1,200," Potter said in an interview this summer.

ESS, in turn, contracted with KBR, the division of Halliburton, which then billed the U.S. government.

The Army would not provide information on payments to ESS. The government has no contract with ESS, officials said, so the public must request information from KBR.

Neither KBR nor ESS would answer questions about the contracts. The information belongs to KBR's subcontractors and is confidential, KBR spokeswoman Melissa Norcross said.

"Any contract details between Compass/ESS and its suppliers and employees are confidential and we adhere to a policy of nondisclosure," Mike Moore, managing director for ESS in the Middle East, wrote in an e-mail message.

Even the U.S. government struggles to get information about the spending. Accountants in the Defense Contract Audit Agency have had a long-running problem getting Halliburton to back up its invoices with documentation.

In March, the agency complained that Halliburton wasn't backing up its bills, despite repeated requests for supporting paperwork. The auditors said Halliburton couldn't ensure subcontractors were doing their work and didn't log their payments to them.

Halliburton billed the government for as much as three times as many meals as were actually served, auditors said. The company couldn't adequately explain or document payments to its dining subcontractors.

Despite those complaints, the defense agency that approves the payments, the Army Field Support Command in Illinois, kept giving Halliburton more time to answer the auditors - three extensions totaling 135 days.

Finally, the auditors lost patience.

In a strongly worded memo Aug. 16, they said Halliburton could not support \$1.8 billion of a \$4.2 billion payment request. The auditors urged the Army to stop the extensions and withhold 15 percent of the payment until Halliburton provided the backup documents: "It is clear to us KBR will not provide an adequate proposal until there is a

consequence."

The Army has not yet decided whether to withhold the 15 percent from Halliburton.

Congress has a hard time getting answers as well.

Rep. Henry Waxman of California and other Democrats on the House Government Reform Committee have had trouble getting information on basic spending or Defense Department audits of Halliburton.

The administration has not turned it over, and the committee has requested but not received copies of KBR contracts with subcontractors.

"We don't have accountability, we don't have transparency on where the money is spent," Waxman said. "Taxpayer money is being wasted. Huge amounts are going to subcontractors, and we have no idea how the money is being spent."

The private companies have also acted to protect themselves from their individual contractors and subcontractors.

For example, at least some private contracts protect the companies from their workers' becoming whistle-blowers. Contractors wanting to work for Blackwater in Iraq, such as Zovko, must sign contracts that compel them to pay Blackwater a quarter of a million dollars in instant damages if they violate their contract for doing things such as discussing details of the contracts or work.

The contract between Blackwater and Regency also contains explicit confidentiality clauses. Singer, the Brookings Institution analyst, said that is typical but troubling: The agreement is between private companies, but their activities are wholly in the public interest.

"The public is paying for it, and it is taking place in a war zone," Singer said. "It illustrates the lack of transparency in this whole business."